

**From:** Rutan, Charles [Rutan@swacuflash.org]  
**Sent:** Monday, April 06, 2009 10:37 AM  
**To:** \_Regulatory Comments  
**Subject:** Chuck Rutan, Southwest Airlines FCU - Comments on Advanced Notice of Proposed Rulemaking for Part 704

April 6, 2009

The Honorable Michael E. Fryzel  
Chairman, National Credit Union Administration  
1775 Duke Street  
Alexandria, VA 22314-3428

The Honorable Rodney E. Hood  
Vice Chairman, National Credit Union Administration

The Honorable Gigi Hyland  
Board Member, National Credit Union Administration

**Re: Comments on the Advanced Notice of Proposed Rulemaking for Part 704**

To Chairman Fryzel, Vice Chairman Hood, and Board Member Hyland:

Southwest Airlines Federal Credit Union (SWAFCU) appreciates the opportunity to comment on the role of the corporate credit union in the credit union industry. SWAFCU is a member of five corporate credit unions (Southwest, Members United, SunCorp, First Corporate and Wescorp) and utilizes many of the services that Corporates provide. We believe that the corporate credit union plays a vital role in the credit union system and if they were not available, we would be at a competitive disadvantage.

In light of the recent events that have drawn attention to the weaknesses in the corporate credit union system and have negatively impacted all natural person credit unions (NPCU's), we believe that it is clear that changes are warranted. What follows are our comments on specific areas detailed in the NCUA's ANPR.

1. Payment System - We do not believe that payment services should be separated from other services currently offered by Corporate CU's. Corporates have offered payment services and managed them well for many years. However the opportunity for all Corporates to offer and settle the products in-house may not be necessary. Consideration should be given to consolidating services like check collection, domestic wires and share drafts to improve efficiencies and decrease costs.
2. Liquidity and Liquidity Management – Liquidity has been and should continue to be a core service of Corporate CU's. NPCU's depend on Corporates for assistance in managing both short and long term cash flow needs. Corporates also provide the simplest process for both investing and borrowing. Overall they have fulfilled the liquidity role well. But Corporates should work to strengthen their liquidity management practices as well as periodically stressing their liquidity plans by modeling extreme scenarios and making the adjustments that are shown to be needed by the models.
3. Fields of Membership – We agree with many other NPCU's that the two-tiered Corporate System is no longer needed. Collapsing the system into one tier would help gain greater efficiencies, improve earnings and potentially increase the rate of capital accumulation. We believe that the restructuring should be an evolutionary process influenced by the ANPR, Corporate CU's and NPCU's. The resulting number of surviving Corporates should be no more than 10 and probably not less than 5. The fewer number would mean increased operating efficiency but less than 5 could leave vulnerability of too much risk concentration. National fields of membership should be continued allowing NPCU's to maintain their ability to choose which and how many corporate they need to utilize. Competition between Corporate CU's should be reduced, however, in order to allow them to more effectively build RUDE (Retained and Undivided Earnings) capital and eventually place primary reliance on it. One way this could be accomplished would be to allow Corporates to distribute other Corporates investing and lending products.

4. Corporate Capital – We believe that the NCUA should establish a new capital ratio that Corporates must meet. Core capital, defined as RUDE and perpetual Paid-in-Capital (PIC) should be a of minimum 6%. Because the industry is well below that number, a phase in period would need to be allowed. Greater emphasis on earnings and improved operating efficiency would be mandatory in order to achieve this level in a reasonable time frame. Existing Membership Capital Shares (MCS's) should be retained at current levels until Core capital of 6% is attained. At that point MCS levels could be established at a reasonable dollar amount (for example - \$25,000 for NPCU's under \$50 million; \$100,000 for NPCU's between \$50 and \$500 million; \$250,000 for NPCU's over \$500 million) and the remainder returned to NPCU's. We absolutely do not agree that MCS should be converted to PIC or that the notice to cancel MCS should be increased from 3 to 5 years.

The NCUA should consider implementation of risk-based capital requirements for Corporates that is consistent with other federally insured financial institutions.

5. Permissible Investments – We would agree that the mission of the Corporate Credit Union is different than NPCU's and as a result, different and broader investment authority is necessary. However we strongly believe that broader authority be given in conjunction with proven expertise, improved monitoring systems and greater regulatory supervision. Wholesale changes to investment authority may not be warranted if broader oversight is implemented. But concentration limits should be put in place and monitored more closely. Derivative transactions should be limited to those that create structured products or are used to manage the Corporates balance sheet (such as hedging the balance sheet risk of members.)
6. Credit Risk Management - We believe that it is fair for the NCUA to curb the extent to which a Corporate may rely on credit ratings provided by NRSRO's until such time as the rating agencies are improved. We also support better defined and controlled concentration limits; the use of multiple rating agencies and the use of third party evaluations of credit risk portfolios.
7. Asset Liability Management – Modeling and stress testing net interest income should be required. Requiring external validation of interest rate risk, credit risk and liquidity risk would also be beneficial.
8. Corporate Governance – We do not believe that changes in governance could realistically have shielded corporate credit unions from the turmoil that has impacted the market in recent months therefore we support continuing to elect board members from within the membership. That being said, we believe that governance could be enhanced by requiring minimum qualifications, ongoing training and peer reviews. Corporates should also be allowed the option to utilize outside directors if the membership believes it to be appropriate. We do not believe that board members should be paid and term limits, if desirable, should also be the decision of the membership.

#### Summary

Corporate credit unions have played an integral role in the success of the credit union industry. But because of the current market crisis it is clear that significant changes are necessary in order for the corporate network to ensure their relevance in the future. SWAFCU believes that the corporate industry is at a critical juncture in regard to defining its role in the credit union movement and that the lessons learned from the current crisis must be applied to solutions going forward. We appreciate the opportunity to have input in this process and commend the NCUA for addressing this critical issue.

Please feel free to contact us if you have questions regarding our response.

Sincerely,

Chuck Rutan  
President/CEO  
Southwest Airlines FCU  
Dallas, TX